Compliments of The First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

1812

THE NATIONAL CITY BANK OF NEW YORK

1926

Economic Conditions
Governmental Finance
United States Securities

New York, September, 1926.

General Business Conditions

THE general business situation continues to be very satisfactory, with every prospect of a record volume of trade during the fall. Crop conditions promise final yields which, though not record-breaking, should yet afford a basis for very satisfactory business in the agricultural sections. Factory employment generally remains at high tide for the season, and pay-rolls, which constitute the basis of buying power are running above a year ago. Retail distribution continues in large volume, as evidenced by the sales of chain systems, department stores, and mail order houses throughout the country. Commenting on the very large increase in sales of Sears-Roebuck and Company through its Chicago and Kansas City territory, comprising the bulk of the agricultural west, Julius Rosenwald, head of that company, recently said:

> Our biggest increase in volume of mail order business has been in strictly agricultural territory. This is convincing evidence of economic recovery on the farms. Kansas is probably the outstanding example of this improvement in the agricultural situation. Iowa is about holding her own. The only states in which a satisfactory improvement is not reflected are the Dakotas and Minnesota.

Consumption of electric power and record breaking freight movement on the railroads reflect the high level of manufacturing and wholesale distribution. Bank checks drawn and cashed at banks make a good showing for recent months, the totals for the first four weeks of August rising 6 per cent above the corresponding period of 1925. Practically all districts are showing gains, with increases particularly marked in the Chicago, St. Louis, Kansas City, and Dallas districts, doubtless reflecting the effects on business of the movement of crops.

Commodity prices at wholesale continue to decline slowly and are now at the lowest level since 1924. So long as the decline is gradual the movement is not an unhealthy one, as its tendency is to enlarge the volume of consumption. The experience of the past year has clearly demonstrated that declining prices and business prosperity are not incompatible. Thanks partly to the policy of avoiding overstocking and to increased industrial efficiency these readjustments have been accomplished thus far with little rise in the business mortality rate, and with a continuance of high industrial profits.

Steel production keeps at a high level, reflecting a steady inflow of orders, as little steel apparently is being allowed to accumulate. Mills are operating approximately 80 per cent of capacity, with no unfavorable developments yet in sight. Despite evidence of somewhat more confident forward buying supplied by the Steel Corporation's rise in unfilled orders at the end of July, the trade maintains a conservative attitude, being influenced by the long period of unusual activity already enjoyed.

Textile news has been more cheerful of late, mainly due to improvement in the cotton goods section, where buying has increased considerably with the greater stability of cotton. With stocks of goods generally at low levels, the increased demand is being reflected promptly in increased mill activity, and a number of southern plants are reported to have resumed full time. In woolens the trend of prices is illustrated by cuts of 8 to 12 per cent on prices of Spring goods, but the volume of business booked is reported better and conditions generally are regarded as less unsatisfactory. Wool prices continue to hold firm, and hopes are entertained for further improvement in business after the close of the vacation period.

Production of automobiles and trucks declined from 383,652 in June to 355,446 in July, and was also below a year ago for the second consecutive month. Following the introduction of the new models, however, production has been stepped up, and a new high record output for the year seems probable. With the between season lull in production, progress has been made in reducing stocks, and generally the industry appears to be in very satisfactory condition. Tire companies are likewise getting into better shape. Many of these companies

sustained heavy losses early in the year, due to the sharp decline in rubber prices and to a falling off in tire sales caused by the late Spring. Thanks, however, to curtailment of production and to heavy consumption during the summer months, excess stocks apparently have been pretty well liquidated, and volume of business and earnings for the second half of the year are expected to show considerable improvement over the first half.

The Rubber Situation

Of interest in connection with the tire situation was the maintenance of rubber prices for the quarter ended July 31 above the average set as the limit below which the provisions of the Stevenson Act for restricting the output of the British colonies would go into effect. Thus the continuation of so-called standard production for another three months at least is assured. Should the price during the current quarter average below 21 pence in London, or the equivalent of 42 cents, a cut of 20 per cent in production for the following quarter will be made.

With prices in London now quoted around 20 pence, application of the 20 per cent cut after November 1 seems a foregone conclusion unless an improvement in the market occurs in the coming months. World shipments of rubber during the first six months of the year reached 291,000 tons, and for the entire year are expected to exceed 600,000 tons, or 100,000 more than last year. In the face of this increased production, American consumption, which is the largest factor on the demand side, fell during the first six months 12,000 tons below a year ago. Reflection of this excess of production over consumption is seen in a rise of rubber stocks in London since the beginning of the year from 6,000 to 30,000 tons.

For the more distant future, however, a different picture of possibilities is presented. World consumption of rubber has been increasing in recent years at a rapid rate as indicated by the following table:

Year	Tons Consumed
1921	292,000
1922	397,000
1923	434,000
1924	475,000
1925	560,000

While for the current year consumption may show little or no increase over 1925, the growth of the automobile industry assures an early resumption of the upward trend. As against this growth of consumption has been relatively little new planting in the recent years prior to 1925, due to the low prices prevailing over most of the period. This is shown by the following table compiled by Henderson, Helm and Co., rubber brokers, giving plantings over a twenty-year period from 1906 to 1925 inclusive:

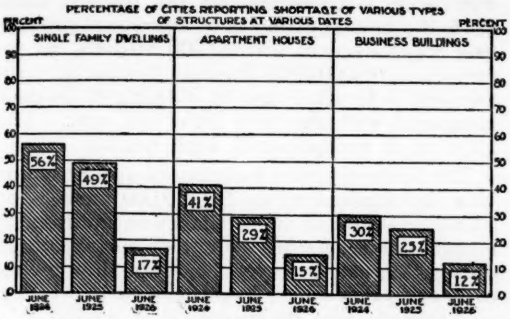
Year	Acreage Planted
1906	136,000
1907	170,000
1908	178,000
1909	159,000
1910	355,000
1911	383,000
1912	334,000
1913	229,000
1914	187,000
1915	208,000
1916	265,000
1917	349,000
1918	402,000
1919	328,000
1920	208,000
1921	126,000
1922	66,000
1923	46,000
1924	50,000
1925	200,000

As it requires about six years for the rubber plants to reach the productive stage, there seems reason to fear that demand may again outstrip supply before new plants can be brought into bearing. Much of course depends upon the extent to which the automobile industry maintains its present phenomenal rate of expansion. With the continuance of rubber consumption at anything like the rate of increase estimated, it is predicted by many good authorities that we may see the recurrence of another shortage similar to that which culminated in the rise of prices from around 20 cents a pound in the middle of 1924 to $1.20 by the Summer of 1925.

Building

An angle of the business situation that will bear watching in coming months and which may have widespread reflection in general business is building. During recent months the margin of gain in both contract and permit figures over a year ago has tended rather steadily to grow narrower, and in July both contracts and permits showed moderate losses as compared with July, 1925. While the volume of work already under way is enough to insure active building for some time to come, and new contracting will doubtless continue to go forward in substantial volume, it seems increasingly probable that building operations are nearing a period of some decline.

Already the building boom has progressed far beyond the period allotted to it by most competent observers, and signs are multiplying that the country is getting pretty well caught up on its requirements. In its eighth annual review of the real estate market, the National Association of Real Estate Boards presents the diagram on the following page, which is based on reports from 181 cities, showing the steady decrease during the past three years in the percentage of cities reporting shortages of various types of structures.



At the same time there were definite increases in the percentages of cities reporting some over-building of these types of structures.

Of much the same import is the following quotation on the building situation from the July, 1926, issue of the Monthly Labor Review, published by the United States Department of Labor:

> The year 1922 was the first year after the war in which there was a surplus of building over normal requirements as measured by 1914 standards. The next three years, 1923, 1924, and 1925, each showed an excess of building over normal requirements for the specified year, as shown by the population line. The figures show that at the end of 1924 the shortage during the war period had been more than made up. At this time the 11-year average of building done stood at 115.5 while the average population index for the same period was 111. The year 1925 shows a surplus of 100 points over the normal needs for the year, making the 12-year average (1914 to 1925, inclusive) of building done 124.5 as compared with a 12-year average of normal population requirements of 112. That is, over this period there is a 12½-point surplus of construction over the normal needs, or in other words, the country as a whole as indicated by the 130 cities at the end of 1925 was 11.2 per cent overbuilt as compared with the year 1914.

Building has been an important factor in the business prosperity of the past few years, and the possibility that some decline may be in store should carry conviction to business men that the present is no time to abandon those policies of conservatism which have served so well in fostering the good times that the country has been enjoying.

Usually the history of all movements such as the recent building boom is that they are over-done. Long continued prosperity in any line breeds over-confidence; people assume larger obligations than they can discharge and prices get out of line with real values, with the result that a period of marking time, and frequently of more or less painful readjustment has to be gone through before progress can be resumed once more. This is what has been going on in Florida, and the effects of the check upon activity in that State are manifested in various ways outside of the real estate business.

The Florida Situation

While it is only in recent years that the Florida land boom has reached its most exaggerated proportions, the development of the state both as a wintering place and an agricultural producer is by no means new. For many years the region around St. Augustine has been a well known resort, and for a long time Florida fruits, vegetables, lumber, and other products have had an established position in northern markets. Thus, the alluring promises of Florida land developers have been heard before in the North, and while in former years the speculation was largely in agricultural lands, the extension of the railroad down the east coast through Miami and Palm Beach some years ago awakened an interest in the resort possibilities of the state that has been the leading factor.

The following table comparing various measures of growth for Florida and for the United States shows that even before the recent boom the state was growing at a rate faster than that for the country as a whole.

Growth of Florida compared with that of the United States as a whole (increase from 1900 to 1920).

	Population	Railroad Mileage	Value of All Farm Property	Value of All Crops	Value of Manufactured Products
Florida	83%	58%	512%	495%	524%
United States	39%	31%	281%	392%	447%

It remained, however, for the combination of unusual national prosperity, development of the automobile and building of good roads, extension of railway facilities, effective advertising, and easy credit conditions to develop the excesses now familiar. The boom as usual was over-done, and Florida is now going through its period of readjustment. A very considerable number of small banks has gone under, and deposits of eleven representative banks for which comparative figures are available show a loss of nearly 25 per cent in the six months ended June 30, a decrease which, while no doubt partly seasonal, compares with a gain of 43 per cent during the boom times of the corresponding period last year. Bank debits in Florida cities, which in January were running as high as 90 per cent above a year previous, had fallen by July to a point where they showed an increase of only 8 per cent, while permit figures also show a tendency recently to slow down from the intense activity that has heretofore prevailed.

The following table showing percentage changes of various business indices in the first seven months of this year compared with a year ago indicates the extent to which business in the State has been affected by the slump.

PER CENT CHANGE 1925 to 1926

	Bank Debits (3 Cities)	Building Permits
January	+90%	+229%
February	+73%	+33%
March	+66%	+98%
April	+42%	+39%
May	+22%	+4%
June	+8%	—15%
July	+2%	—49%
Total	+40%	+16%

All of which constitutes an excellent lesson in the results of excessive speculation and unwise use of credit, though it need occasion no alarm regarding fundamental conditions in Florida. Most of the banks that have failed were very small institutions and belonged to a chain system and reports indicate that their collapse was due in part to the fact that a substantial part of the surplus funds of the Florida members of the chain was loaned outside the State and could not be called back when wanted. So far as the majority of banks in Florida is concerned, there is ample evidence that they have prudently kept their funds in liquid condition. On June 30 the banks in Miami were reported as having a cash reserve of nearly 40 per cent of total deposits, or considerably above the legal requirements. The ill effects which might have resulted from the boom collapse have been minimized by the wise policy generally pursued by the bankers of the state.

Should the situation follow the usual course it may take some time before readjustment is fully completed, and some further results of over-expansion on the part of individual companies may come to light before conditions become definitely better. The recognized attractions of Florida, however, in the way of climate, soil, and proximity to the great centers of population constitute a substantial basis for further growth, while the large sums invested in railways, roads, and other sound improvements all represent permanent facilities which will contribute to the advancement of the state. There has been a drastic deflation of fictitious values, but fortunately it has come at a time of easy credit conditions, so that real values have not had to be sacrificed, and what under different circumstances might have precipitated a rather serious credit situation, now promises to pass away with its effects largely confined to those conditions which have been in need of correction.

Agricultural Conditions

In its August 1 crop report the Department of Agriculture characterized crop conditions as backward and variable, with the central fact emerging that there is little likelihood of more than the average major food and feed crops. During August varying conditions of severe drought and excessive rains have combined to make close appraisals of crop progress unusually difficult, but in general the outlook apparently continues about as at the beginning of the month. A source of much uncertainty regarding corn lies in the lateness of the crop, which subjects it to the danger of frost damage.

The Government report of August 1 confirmed the earlier indications of a splendid winter wheat crop. With the yield per acre averaging 17.1 bushels, or the highest since 1914, the official estimate of aggregate production was raised to 626,482,000 bushels, an increase of 65,000,0000 bushels compared with the July 1 forecast and of 234,000,000 bushels compared with the final yield last year. The yield is of exceptionally high quality.

The Government's estimate of spring wheat was also marked up to 212,719,000 bushels, or 13,000,000 bushels more than was indicated a month previous. Movement of spring wheat during August, however, has been slow owing to heavy rains which have delayed harvesting and caused some deterioration of quality.

The combination of August 1 estimates of winter and spring wheat works out to a total probable yield of 843,000,000 bushels, compared with 666,000,000 bushels at the close of last year, and 835,000,000 for the five-year average.

Forecasts of wheat production for 21 countries of the northern hemisphere outside of Russia and China indicate that world supplies may be about the same as last year, the precise estimates reported for these countries by the U. S. Department of Agriculture being 2,351,000,000 bushels, as against 2,320,000,000 bushels last year. Demand for new wheat, on the other hand may be stronger than in 1925, because of low stocks of old wheat, reduced supplies of rye and potatoes, and short wheat crops in the Orient. As to Russia, a few shipments of grain have come out in the past month, but various reports from that country are to the effect that the Government is having no better success in buying grain from the peasants than it had last year. The difficulty is the same as last year, to-wit, the unwillingness of the farming population to give up grain at the prices allowed in exchange for manufactured goods at the relatively high prices charged for the latter.

Prospect of close balance of world supplies and demand, together with heavy buying by millers, has helped to support the market under the flood of grain from the winter wheat country.

Reflection of the profitableness of this year's winter wheat appears in an increase of 14.4 per cent in the intended sowings for this fall. Should these intentions be carried out and if abandonment and yields are average, a winter wheat crop of around 573,000,000 bushels would be produced, according to the department, which would be about 9 per cent less than that harvested in 1926. With this average yield next year and an increase in acreage as large as that indicated, there would be a surplus for export and additions to carry-over of around two hundred million bushels. In 1924 exports amounted to 255,000,000 bushels, and in 1925, when there was a relatively short crop, to only 92,000,000 bushels.

Corn Below Average

The condition of the corn crop is below average for this time of the year. High temperatures and drought caused a decline of condition during July, so that on August 1 the crop was forecast at 2,576,936,000 bushels, or about 12 per cent less than last year. The weight of opinion as reflected in the price of the December option, at Chicago, is that some improvement has taken place in August. The price is off 8 or 10 cents from the top.

Oats are expected to measure up close to the five-year average, though the crop will be much below the large crop of 1,512,000,000 bushels harvested last year. This is despite the fact that the yield per acre, owing to drought and late sowing, will probably be around the lowest in fifteen years. Stocks on the farm, left over from last year's crop, were the largest on record for August 1, excepting only the years 1916 and 1921.

Hay looks to be the smallest crop since 1913, yield of tobacco is placed below average, and even potatoes, contrary to all predictions of over-production, were increased only 2 per cent in acreage and must do very well to make an average crop. The fruit crop, on the other hand, is expected to be unusually large, while cotton is expected to yield over 15,000,000 bales which may make supplies burdensome.

Cotton

Excessive rains in the cotton belt during the first two weeks of August caused the Government to reduce its August 15 crop estimate by 373,000 bales to 15,248,000 bales. The lowered estimate had a decided effect on prices which advanced nearly a cent a pound on the report and at the close of the month were still quoted substantially above the levels prevailing before the Government announcement.

Added factors on the demand side have been the improved conditions in the textile industry and a better showing as to exports. After running below a year ago during most of the season, exports in July picked up to 365,522 bales, compared with 346,774 bales in July, 1925. For the entire cotton year closed August 1, exports amounting to 8,246,000 bales were up nearly to the total of 1925.

The Cattle Situation

Cattle feeders are having an unsatisfactory year. Recent months have seen a material decline in the prices of the better grades of beef steers. This trend is just the opposite of what occurred in the summer of 1925, when prices advanced to the highest levels since 1920, largely because of the scarcity of heavy, well finished steers suitable for hotel, restaurant and dining car trade. A short corn crop in 1924 was responsible for this scarcity.

With an abundance of relatively cheap corn from the crop of 1925, and, with fewer hogs to feed, it appears to have been the general policy of cattle feeders to plan for another price rise in 1926. That they have met with disappointment is apparent from an inspection of the following figures showing the average prices of steers of different weights and grades at Chicago during July and the first three weeks of August this year and last:

Weight and grade	July 1926	July 1925	Increase or decrease	Aug. 1-21 1926	Aug. 1-21 1925	Increase or decrease
1500 lbs. upgood and choice	$9.62	$13.05	—$3.43	$9.33	$14.30	—$4.77
1100-1500 lbs.						
Choice	10.18	13.65	— 3.47	10.11	14.85	— 4.74
Good	9.64	12.03	— 2.39	9.48	12.29	— 2.81
Medium	8.83	9.78	— .95	8.41	9.34	— .93
Common	7.41	7.57	— .16	6.81	7.00	— .19
1100 lbs. down						
Choice	10.43	13.53	— 3.10	10.47	14.54	— 4.07
Good	9.94	11.88	— 1.94	9.82	11.85	— 2.03
Medium	8.81	9.57	— .76	8.38	8.76	— .38
Common	7.26	7.07	+ .19	6.77	6.33	+ .44

The extreme decline in prices of the higher grades and heavy weights as compared with the declines on the lower grades and lighter cattle is rather striking and when compared with the wholesale prices of dressed beef at New York indicates a larger supply of the better grades than could be moved into consumptive channels except at price concessions.

Average Prices of Western Dressed Steer Beef, New York

Grade	July 1926	July 1925	Increase or decrease	Aug. 1-21 1926	Aug. 1-21 1925	Increase or decrease
Choice	$16.52	$20.52	—$4.00	$16.42	$21.23	—$4.81
Good	15.56	18.28	— 2.72	15.39	17.57	— 2.18
Medium	12.73	14.50	— 1.77	12.97	13.83	— .86
Common	10.32	11.31	— .99	10.67	10.60	+ .07

While the preceding tables indicate the situation confronting the cattle feeders who produce the better grades of beef they are not indicative of the actual returns to the cattle industry as a whole. These are best shown in the following table:

MONTHLY AVERAGE COST OF CATTLE SLAUGHTERED UNDER FEDERAL INSPECTION

	1926	1925
January	$7.17	$6.51
February	7.39	6.87
March	7.67	7.67
April	7.73	8.20
May	7.69	8.16
June	7.83	7.86
July	7.49	7.55

The most striking feature of the foregoing table is the fact that the cost of cattle to packers in July this year was only 6 cents per 100 lbs. less than in July, 1925, despite the material decline in the prices of the better grades of steers.

An analysis of the supply figures shows that the number of cattle slaughtered under federal inspection from March to July, inclusive, this year was 6.4 per cent greater than the number slaughtered in the corresponding period of 1925. Because of better dressing yields and slightly heavier weights the increase in the total production of beef amounted to 8.1 per cent.

Carcass weights in July averaged 20 pounds or 4 per cent heavier than in July, 1925. This

increase applied to the July slaughter was equivalent to 34,500 cattle of the average weight slaughtered a year ago.

The slaughter figures are of particular significance when consideration is given to the classification of the cattle slaughtered. Because of the tuberculosis eradication campaign in some of the large dairy districts there was a heavy movement of reactor cows to market, particularly from March to June, inclusive with the result that the total number of cows and heifers slaughtered in those months was 160,000 head or 12.6 per cent greater than in the corresponding period of 1925. While steer slaughter was larger each month since January than in the corresponding months of 1925 the largest increases were in June and July and totalled 70,000 head or almost 9 per cent.

The most striking feature of the supply situation is revealed in the following table showing the character of the steer receipts at Chicago from June 1, to August 21:

cattle business on the whole is better than at any time since 1919. Even for heavy steers, the tone of the market improved in August.

A letter from Mr. Biggerstaff, Secretary of the Kansas City Live Stock Exchange, replying to an inquiry, says:

Cheap corn and lots of it caused feeders to lay in lots of cattle at what has proven to be very high prices. They fed these cattle a great deal and made them big and heavy and the market could not absorb so many heavy corn fed cattle. The crest of the wave of marketing these heavy cattle came at the time when the grass fat cattle began to come in.

The trouble is that the corn belt feeders all did the same thing in the same way so it has brought about a very serious situation. The losses sustained have curtailed the purchases of all farmers of the central west to a large extent and will have a serious influence on business as a whole this fall. Very fortunately the drought in Kansas and Southern Nebraska seems to be broken but the rain came too late to do the corn in many sections any good.

I have just had reports from the Osage country in Oklahoma and recent rains there have restored the grass to its usual fattening qualities. The good rains in Kansas and Southern Nebraska will bring back their grass in many sections. This will check the flow of grass cattle to the market and will lessen the tension on the heavy fed cattle. The market situation for corn fed cattle looks better.

BEEF STEERS* SOLD AT CHICAGO OUT OF FIRST HANDS FOR SLAUGHTER

	Choice and Prime		Good		Medium		Common	
	1926	1925	1926	1925	1926	1925	1926	1925
June	32,757	20,544	55,997	34,577	54,034	38,330	7,807	10,577
July	27,699	22,736	47,915	43,020	49,742	38,621	9,220	13.551
3 weeks of August	20,795	9,642	43,324	28,029	29,144	27,546	2,687	3,044
Total	81,251	52,922	146,236	105,626	132,920	104,497	19,714	27,172
Increase or decrease 1926 over 1925	53.5%		38.4%		27.2%		—27.45%	

* Western cattle excluded.

The above figures indicate the reasons for the decline in prices of fed cattle. In 1925 supplies of good, choice and prime cattle, particularly heavyweights, decreased throughout August and early September, with the result that prices advanced to $16 at Chicago. This year supplies of all grades of steers grading better than common were very large in June and while not so large in July and August, they greatly exceeded the receipts in those months last year. In the meantime the price trend has been downward although there is a tendency towards stabilization around present levels.

The cattle situation furnishes another demonstration of how seriously the market for foodstuffs is affected when supplies rise above the quantities required to satisfy the normal demand. Meats can be kept only a limited time in storage; they must move into consumption without delay. The only way to avoid a glut is by keeping back the live animals, and in periods of severe drought, such as some parts of the west have been having this summer, this is impracticable.

Outlook Not Discouraging

Notwithstanding the unfortunate results upon heavy cattle in recent months, the cattle specialists of the Department of Agriculture express the opinion that the outlook for the

Other Livestock

The hog market was on the down grade most of July and early August, but prices have since shown some recovery from the low point. With the prospects for smaller feed crops and with producers preparing for larger hog production there is little doubt but that the peak of hog prices has been reached. Nevertheless, as no feed shortage is in sight, and as breeders' intentions can hardly be reflected in increased market supplies before the spring of 1927, prices should continue at relatively high levels.

A 10 per cent increase in the 1926 lamb crop, equivalent to about 2,000,000 head of lambs, is indicated by the lamb survey of the Department of Agriculture. The increase is in the western sheep states, and particularly in those sections from which the largest shipments of feeder lambs come. Supplies available for marketing during the last half of the year thus show a considerable increase, but in view of the present demand and the promising feed prospects the Department expresses the view that prices during the next twelve months may average only slightly lower than during the last twelve. Regarding wool, the Department says that while prices may continue near their present level for some time, there are no present indications of a return to the high prices of the end of 1924.

New York's New Grain Futures Market

An important step in the further development of grain marketing facilities in this country was the opening on August 2 of the new market for grain futures on the New York Produce Exchange. Heretofore, the New York grain market has been a strictly cash grain market, and eastern millers, dealers, exporters, and foreign buyers have had to conduct their futures operations in other markets, principally Chicago, where last year, according to Dr. J. H. F. Duvel, Chief of the Grain Futures Department of the Department of Agriculture, approximately 15 per cent of the 18,000,000,000 bushels traded in on the Board of Trade represented New York business. Some fourteen or fifteen years ago a grain futures market did in fact exist in this city, but it was subsequently abandoned, largely because the contracts dealt in were deliverable in New York which was found to be not an advantageous delivery point. The new grain market, however, provides for delivery at Buffalo, an ideally situated milling and distributing center for the eastern and foreign markets, and is expected to be a factor of growing importance in the grain trade.

Contracts dealt in in the new grain pit include not only domestic wheat, but also Canadian wheat in bond. For a long time it has been a practice for many domestic mills, particularly those located along the border, to import Canadian wheat duty-free under bond that the grain when milled into flour will be re-exported. A large business of this sort has been done at Buffalo, but up to this time no market has existed where future contracts for wheat in bond could be bought and sold.

At present only wheat futures are being traded in in the new market, but eventually as the machinery gets well under way corn and other grain futures will be added to the list.

Advantages of the New York Contract

There are many reasons why the establishment of a futures market in this city is a natural development. New York's greater proximity to the European markets and its position as a world financial and shipping center, make it a logical center of the grain export trade. While the importance of the western markets will not be lessened, the expansion of wheat production, growth of the country industrially, and the wider distribution of the milling industry have enhanced the need of an eastern contract market. Cheap water transportation has made Buffalo, where the New York contracts are deliverable, the natural northern gateway for the flow of grain from western United States and Canada to the eastern seaboard and abroad. Drawing with equal facility from Chicago, Milwaukee, and Duluth, and with an elevator storage capacity of 30,000,000 bushels, approximately the largest in the country, the Buffalo market rests upon a broad base of supplies that cannot be excelled anywhere in the country. In the event of any shortage of wheat available to deliver on contracts, Buffalo can draw without extra out-of-line expense upon the large elevator stocks of these western lake ports, whereas the western markets are limited to a larger extent to their country sources of supply. Moreover, as a milling center, Buffalo has grown rapidly until its capacity equals that of Minneapolis, for many years the leading city in the milling trade. Add to these advantages easy accessibility by rail or water to the Atlantic seaports and eastern centers of population, and the showing for Buffalo as a delivery point is an impressive one.

Function of a Futures Market

Many persons not acquainted with the function of a futures market are critical of it on the assumption that dealing in futures is nothing more or less than gambling, in that these futures do not represent real grain but only contracts to deliver grain. The fact that the volume of wheat contracts for future delivery in Chicago in the last five years has averaged 19 billion bushels a year, or about four times the average crop, is held to be prima facie evidence of excessive speculation, to the detriment of both the producer and consumer of agricultural products. It is even claimed that the commissions and "profits" of all this turnover are at the expense of producers or consumers.

As a matter of fact it is of no more consequence that the volume of grain futures sold exceeds the total crop than that the amount of bank clearings every year far exceeds the amount of real cash in the country. Grain futures are a contract to deliver grain and bank checks are an order to pay money, but in both cases many of the transactions are offsetting and cancel each other so that the balance to be settled in grain or cash, as the case may be, is relatively small. The important thing is that each individual contract be met at maturity, and that a broad market exists at all times, not simply for commodities needed for immediate consumption, but for commodities in which there may be temporarily a surplus and which must be carried by someone pending their final distribution. The futures market performs this function. Were it not for this market and the large body of professional grain dealers who are willing to assume the risks of carrying products until they are needed for consumption, the farmer would be obliged to assume these risks himself or see his markets melt away from him under glut of the seasonal movement of commodities that occurs in the fall of the year.

Importance of Hedging

One of the most important of the functions of a futures market is in connection with "hedging" operations. Hedging is a device whereby the purchaser of some such commodity as wheat or cotton protects himself against fluctuations in the price of his raw material during the time it is in the process of manufacture into flour or cloth, as the case may be. It is common on many of the commodity markets and its importance to the manufacturer can hardly be exaggerated.

A flour miller, for example, at the time of buying his cash grain at a price which he thinks will enable him to make up his flour and sell it at a profit, "hedges" this purchase by a sale of grain for future delivery. If, then, the market for wheat declines and he is forced to take a loss on his flour he is in a position to offset this loss by going into the market and covering his short sale of wheat at the lower prices then current. Thus the business of flour milling is made much less speculative and the miller is enabled to do business on a smaller margin, which means the farmer gets more for his grain and the consumer pays less for his flour.

Advantage of the New York Hedge

Obviously it is important in these dealings that there be assurance of adequate supplies of grain at all times to enable hedging sellers to cover without undue disturbance to the market, and eastern buyers forced to hedge in western markets have sometimes suffered from congestion at delivery dates brought about by local conditions in those markets. The New York contract, based on delivery at Buffalo, offers to any hedging seller, like the foreign miller, the safest possible medium of futures operations, while at the same time the shipping differential compared with western points places him in the position of having sold something at a premium which he may subsequently cover in any one of the several markets, depending on which affords the best opportunity for profit.

In addition to eastern hedge selling, it is expected that considerable selling by western dealers and millers may develop here as a result of seasonal grain movements. Interior purchasers of cash winter during the winter wheat marketing season, when western markets tend to be depressed, may find it advantageous to hedge their purchases in New York, where the market, being affected largely by the spring wheat movement, will often still be relatively high. Later, as the movement of spring wheat gets under way and tends to depress prices in the northwest and in New York, it frequently may be possible for the western dealer to make a little profit in removing his hedges over and above what he would have made had he confined his hedges to western markets.

The New Market in Operation

Since the opening of the new market trading in futures has averaged around 5,000,000 bushels a day, not a large sum compared with the volume of business in western exchanges, but enough to demonstrate the usefulness of an eastern market. As time passes there is every reason to believe the volume of business will grow.

Commenting on the results of the first week's operations, Chairman Axel Hanson of the organizing committee was quoted in part as follows:

> The first week of the New York grain futures market is over, and it is very gratifying to be able to assert that this market is a fait accompli. There is no doubt that it is here to stay forever, and in spite of the dullness of trading in all the grain futures markets, our newcomer has proven itself full of life, and shows signs of steady growth.
>
> It is interesting to observe our market fulfilling the purpose for which it was formed. Situated as it is, half way in between the production fields and the consumption markets, it is acting as a buffer market between the influences of the selling interests and the buying interests. In other words, the influences of the European markets which have shown relative strength, are apparently felt more keenly here than in the Western markets. That is exactly the way it should be. While the movement is on in the West, the Western markets are likely to be particularly influenced by it. Our New York market, of course, cannot go beyond the full shipping difference between the West and the East, but this difference is now practically established and our market thus offers the most wonderful hedging market for the grain that from now on is flowing eastward to the consumption districts.

Hours of trading will be from 10.30 A. M. to 2.15 P. M., except on Saturdays when they will be from 10.30 A. M. to 1.00 P. M. Commission rates are set at ¼ cent a bushel for non-members, and ⅛ cent a bushel for members, and trading, unless otherwise specified, is to be in 5,000 bushel lots, with the minimum permissible unit 1,000 bushel.

A feature of the market which it is believed will be helpful to exporters and others outside the regular grain trade is the elimination from trading of all grades of American wheat below No. 2. Many futures markets permit delivery on contracts of different grades, many of which are not suitable for the milling and export trade. This has sometimes deterred buyers from operating in the nearby futures in those markets, and elimination of these objectionable grades is regarded as an important advantage to buyers operating in this market.

As to price differentials, a calculation of freight, insurance, and interest charges indicates a normal difference on domestic wheat in New York of 4½ to 5 cents over Chicago, and on Canadian wheat of about 5 cents over Winnipeg. These differentials, of course, will vary, depending on supplies of wheat in Buffalo, lake freight rates, changes in lake insur-

ance rates with the approach of winter, closing down of lake transportation, and similar factors.

Money and Banking

The most important development in the money market during the past month was the advance in the discount rate of the New York Federal Reserve Bank from 3½ to 4 per cent. This was the result of conditions which have been slowly forming during the past few months. An increasing demand for funds for crop moving and Fall trade, combined with an unusually active Summer trade, caused a withdrawal of funds from the central money markets into trade channels, and rates in consequence have tended to be firmer. With Stock Exchange call loans quoted at 4¼ to 4½ per cent early in August, a 3½ per cent discount rate was obviously out of line with the market.

Action by the New York bank in raising the rate brings the rate back to a uniform level of 4 per cent in all Federal reserve districts. This is where it has been all year in the other districts, but in New York a reduction to 3½ per cent occurred in April, following substantial liquidation in the stock market and some indications of hesitancy in business.

With the raising of the bank rate, open market money rates have become adjusted on a definitely higher level. Commercial paper rates have moved up to 4½ per cent, compared with 4¼ per cent a month ago; acceptances are 4 per cent bid, 3⅞ per cent offer for 90-day maturities, compared with 3½-3⅜ per cent last month; while stock market time loans are up ½ to 5 per cent.

Bank Loans Increasing

Commercial borrowing, as measured by the weekly reporting member banks, is on the up grade, and if it follows the normal seasonal course will continue to increase until around the middle of October. Along with this seasonal commercial expansion has come a revival of speculation in the stock market, accompanied by an increase of over $300,000,000 in brokers' loans from the May low point, which has brought the total of these loans nearly half way back to the January high. Money in circulation is also increasing, due to high wages and active retail trade which has stimulated a demand for hand-to-hand currency, and in supplying this need banks have had to draw on their reserve balances, which has reduced their credit making power in other directions. All these factors have been on the side of firmer money conditions.

Looking back over the past few years it will be seen that bank credit has been expanding almost continuously and is now substantially above the peak levels of 1920. This is shown by the following table giving the total loans and investments of the reporting member banks each year during the past six years:

TOTAL LOANS AND INVESTMENTS—ALL REPORTING MEMBER BANKS
(In millions of dollars)

1920 Peak (October 15)	17,284
August 17, 1921	14,844
August 16, 1922	15,342
August 15, 1923	16,273
August 20, 1924	17,519
August 19, 1925	18,851
August 18, 1926	19,685

Inasmuch as there is seldom at any one time any great amount of unused credit-making power in the hands of banks, any further expansion of commercial requirements this Fall will have to be met by banks either through a reduction of their security commitments, whether in the form of investments or in loans on collateral, or else through an increase in their borrowings at the Reserve banks. In either event, again, the effect is likely to be in the direction of firmer money rates.

That nothing in the nature of credit stringency this Fall need be anticipated, however, is made evident by the strength of the Reserve bank position. During the past month added commercial demands on the member banks have been met in part by some reduction in other forms of loans and investments, so that the aggregate expansion in member bank credit has been moderate and has been accompanied by relatively little expansion of Federal reserve credit. As indicated by the following table comparing total bills and securities of the Reserve banks each year since 1921, the present total of Federal reserve credit outstanding is but little higher than a year ago, and far below the high levels touched in the Fall of 1920.

TOTAL BILLS AND SECURITIES—ALL FEDERAL RESERVE BANKS
(In millions of dollars)

1920 Peak (October 15)	3,422
August 24, 1921	1,769
August 23, 1922	1,041
August 22, 1923	1,042
August 27, 1924	855
August 26, 1925	1,126
August 25, 1926	1,150

Gold Movements

Possible factors in the money situation which may upset present calculations as to rates are the direction and volume of gold movements this fall. A year ago the opinion was quite generally held that the period of large gold imports into this country had ended. Yet for the first seven months of this year the Department of Commerce reports gold imports of $143,000,000, compared with $50,900,000 for the corresponding period of last year. As exports during the same period have totaled only about $46,800,000, the country shows a net gain in gold of $96,200,000 for the seven

months compared with a net loss of $143,600-000 for the corresponding period of last year.

The following table, based on Department of Commerce reports through July, gives the details of gold imports during the first seven months of the year, and shows the bulk to have come from Canada during the early months when there was a return flow of gold that had been exported to that country during the crop moving period of last fall. Recently, however, imports have been resumed on a large scale, approximately $20,000,000 having been imported from Australia during June and July, presumably for the support of sterling exchange, with shipments of an additional $10,-000,000 reported for August.

The Commission held sessions in India and London, but the proceedings were not made public until the official report was submitted, hence little has appeared in print about them. However, the action of the Commission has been awaited with much interest in financial circles the world over, as it was known that proposals which might have very important results were under consideration. The Financial Department of the Indian Government was known to have submitted a plan for the introduction of a gold currency into India, with limitation upon the legal tender power of silver to 50 rupees, and the sale of a large quantity of silver as bullion. The plan was disquieting for what it proposed both as to gold and silver, for the world would not like to see an increased movement of gold to Asia at the present time, and the prospect of India as a seller of silver would be disturbing to the metal mining industry generally.

U. S. GOLD IMPORTS FIRST SEVEN MONTHS OF 1926 BY COUNTRIES
(in dollars)

	Canada	Chile	Mexico	Australia	Japan	Miscellaneous	Total
Jan.	17,839,000	37,000	539,000	7,000	—	929,000	19,351,000
Feb.	9,826,000	9,753,000	286,000	1,000	4,000,000	1,550,000	25,416,000
Mar.	39,278,000	2,503,000	531,000	—	—	1,101,000	43,413,000
April	10,694,000	8,000	1,003,000	—	—	1,421,000	13,126,000
May	712,000	102,000	712,000	2,000	—	1,407,000	2,935,000
June	612,000	3,481,000	8,662,000	4,866,000	—	1,269,000	18,890,000
July	526,000	130,000	3,633,000	14,606,000	—	925,000	19,820,000
Total	79,487,000	16,014,000	15,366,000	19,482,000	4,000,000	8,602,000	142,951,000

As against these imports, recent exports have included $20,000,000 shipped to Germany in August from ear-marked holdings at the Federal Reserve Bank of New York (and therefore not a factor in the money situation) and approximately $10,000,000 sent to Canada. Should the net movement this fall be favorable to the United States, its influence should tend to modify seasonal firmness. Should the gold movement to Canada, on the other hand, develop to proportions offsetting imports, the results would probably be in the opposite direction.

The Monetary System of India

As an addendum to the usual contents of the Monthly Letter we are giving with this issue a comprehensive review of the recent report of the Royal Commission on Indian Currency and Finance. The monetary system of India has been in an anomalous state ever since the mints were closed to the free coinage of silver in 1893, an event which at the time loomed up as of great importance in the United States, owing to its relation to our own political controversy over silver. This action by the Government was preliminary to placing that country on a gold basis, which was done in a tentative way in 1899, but the system was incomplete, and broke down under the strain of war time, when even Great Britain herself was obliged temporarily to suspend gold payments. Great Britain resumed gold payments last year and a Royal Commission was appointed to report upon the Indian situation.

The United States is interested in silver as one of the chief producing countries, and interested in gold because scarcity of that metal anywhere would mean pressure upon the money markets of this country. In view of the related interests which India and the United States formerly had in the silver controversy, and inasmuch as the new proposals in India are a continuation or culmination of the policy inaugurated in 1893, a sketch of the history of the demonetization of silver seems to be a fitting prelude to a review of the recommendations of the latest Indian Commission.

The Bond Market

Although the trading in bonds during the month of August continued quiet, prices in all groups remained fairly firm. Announcement of an increase in the rediscount rate for the New York district had a temporarily unsettling effect which caused some recessions, particularly in the United States securities and other high grade obligations most sensitive to current interest rates. Recoveries have been general and average prices towards the end of the month are practically on the same level as at its beginning.

The Dow Jones average for forty listed domestic corporate issues (10 high grade rails,

10 second grade rails, 10 industrials and 10 public utilities) on August 25th was 94.92 as compared with 94.87 on July 26th and 91.97 an August 25th a year ago. At 94.92 the average is 1.85 above the year's low and lacks only .60 of reaching the year's high of 95.52 attained in June. This showing is all the more impressive when one considers that the market is just emerging from several months of relative inactivity during which it has also been subject to the depressing effect of a raising of Federal Reserve rediscounts and has had to meet the competition of a steadily rising stock market.

While there is a restricted public interest in older outstanding issues of most groups, resulting in a continued small volume of exchange transactions, new offerings as a whole are being well received. The prices of course, have been made attractive, but the avidity with which these new bonds are being absorbed indicates that the restricted volume of transactions is due to investor inertia rather than to any lack of buying power. The inventory situation among dealers is healthy, most lists showing a smaller volume of goods on hand than for many months. Hand to mouth selling seems to have been the rule. Should a strong demand for bonds develop within the next few weeks, there is likely to be considerable trading activity among dealers who have allowed their offerings lists to dwindle more than a normal market would justify.

Calling Bonds for Prepayment

Corporations continue to call in their high coupon rate bonds issued during and after the War when interest rates were extremely high, either refunding into lower coupon issues or retiring from corporate surplus. This movement is a thoroughly logical one, because the present market offers unusual opportunity for refinancing on more favorable terms, thus cutting down fixed charges and assuring the borrower relatively cheap money for a period of years. During August about $125,000,000 par value of bonds were paid or called in advance of maturity, against about $105,000,000 in July and $98,000,000 in August of last year. These issues are being prepaid at premiums ranging from 1% to 10%, thus giving the investor a little extra income in addition to the abnormally high interest return he has enjoyed while the bonds were outstanding. The most important issue paid off during the month was $33,919,000 of Southern California Edison 6s of 1944—call price 105. There were also substantial amounts paid off by the West Penn Power Company, Standard Oil Company of California, Otis Steel Company, and other well known borrowers. Another evidence of this movement was the offering on August 26th by the Westinghouse Electric and Manufacturing Company of $30,000,000 20-year 5s, the purpose of which is to provide funds for the retirement of $30,000,000 principal amount of this company's 7% bonds called for redemption on November 1st next. Already this year over $550,000,000 in bonds and notes have been paid in advance of maturity and it is expected that this figure may reach $1,000,000,000 before January next.

Foreign Bonds in Lead

Growing confidence in the ability of the Poincaire ministry to reestablish financial stability in France was shown in a steady improvement in French external issues during the month and in the sympathetic action of other European issues. All French government issues reached new high prices on the rally. At this writing French 7s are quoted at 91¾ or up over 5 points from the low of the year; French 7½s at 99¾ and 8s at 103¾ both show a proportionate improvement. A large block of the 7s were recently called for the sinking fund and operations for this account have of course been a supporting factor. Good buying is apparent throughout the entire European list and substantial gains have been registered in various other government issues, particularly those of Belgium, Italy and Poland. The rise of stocks on the Berlin Bourse accounted for continued buoyancy in the German General Electric 6½% Debentures and in Rhinelbe Union 7s, both of which carried stock purchase warrants. The German General Electric is now quoted at 114½ as against an original offering price of 94. The Rhinelbe 7s are quoted at 109½ against an original offering price of 94. Comparative quotations for these issues with and without purchase warrants attached show that German General Electric warrant at present has an approximate market value of about 20 and that of the Rhinelbe Union about 15.

Further strength was evident in practically all the South American issues, the Chile 8s of 1946, the Sao Paulo 8s and the Argentine 5s all registering substantial gains. One outstanding feature of the market for foreign securities is the increasing willingness of investors to buy. A few years ago when the differential in yields between foreign and domestic issues of similar grade was considerably wider than it is today, many conservative investors were slow to enter the foreign field. The gradual improvement in world conditions since that time, coupled with the increasing familiarity of investors with foreign securities generally, has made for increasing confidence and broader public participation. While good foreign bonds have undergone a substantial improvement in price during the year there

are still many attractive income opportunities beckoning the investor.

The leading foreign issue offered during the month was the $20,000,000 Mortgage Bank of Chile Guaranteed Sinking Fund 6¾s of 1961, offered at 99¼ to yield 6.80%. These bonds are a general obligation of the Mortgage Bank of Chile which was organized over seventy years ago for the purpose of assisting in the development of Chilean real estate. The bank makes first mortgage loans on an ultra-conservative basis and has been very successful in its operations. The bonds were unconditionally guaranteed as to principal, interest and sinking fund by the Republic of Chile and are proving particularly attractive for businessmen's investment.

Rails in Strong Position

With car loadings continuing in large volume and current operating reports indicating record earnings for the year the prolongation of the period of railway prosperity, which many executives had feared would not extend beyond the first half of 1926, seems to be assured. Indications of prosperity by railways in all sections of the country are being sharply reflected in the market for railway securities. Heavy buying of railway bonds has forced many high grade and second grade issues into new high territory. Particularly impressive was the buying of northwest issues including those of the Chicago, Milwaukee and St. Paul. Most of the latter group gained several points during the month, those familiar with the situation evidently figuring that the bonds will be considerably higher marketwise when the reorganization has been effected. A strong market for railway stocks carried several convertible issues to record prices. Particularly active were the Delaware and Hudson Convertible 5s. These are convertible into the road's common stock at 150 until October 1, 1927. The bonds are now selling at around 116 at which figure they show a gain of about 8 points from the low of the year. Junior issues of some of the roads affiliated with the Missouri Pacific were prominent in the trading as were also Denver and Rio Grande General 5s, International-Great Northern Adjustment 6s, Chicago and Alton First Lien 3½s, and a host of high grade issues.

European Affairs

The coal strike is still an overshadowing factor in the British industrial situation. It has lasted four months, and little definite progress appears to have been made toward an agreement, although there are signs of disintegration in the miners' organization. It may be that the best possible outcome is to have a gradual resumption of work by independent agreements in the several districts, between individual operators and their employes; in other words, a scrapping of organization on both sides. An old-fashioned struggle for the elimination of the uneconomic mines would clear up the situation. The outstanding fact is that there are too many mines and miners for the present consumption of coal, and that all of the coal-consuming industries would be helped by having production confined to the most economically operated mines.

The reserves of coal carried by consumers are now generally exhausted, and hundreds of thousands of wage-workers in the other industries are idle in consequence. Coal is being imported on a large scale from Belgium, Germany, the United States and South Africa, and importations are increasing. The shipping industry is deriving benefit from this situation, and a congestion of grain is reported at Montreal as a result of the diversion of boats to the coal movement. The cost of imported coal is about double the normal cost of domestic coal, and this is a serious handicap to British industry.

On the whole, however, Great Britain's position in foreign trade is affected less than might have been expected to be the case. In the month of July exports of British products fell off about $36,000,000 from those of July, 1925, coal being directly responsible for more than $20,000,000 of this, while foreign coal figured to the extent of over $20,000,000 in the imports. The country is going along with remarkable calmness under the circumstances. The competing coal producers of other countries are improving the opportunity to tie up long term contracts with consumers accustomed to use British coal, hence the injury to the British industry is likely to be felt for some time after the strike is over. The injury to internal trade is indicated by the fact that the gross earnings of British railways since the strike began are about 16 per cent below those of the corresponding months of 1925.

Mr. Winston Churchill, Chancellor of the Exchequer, commenting upon the results of the strike recently, is reported as follows:

> The class that has suffered most had been the trade unionists. Their funds had been dissipated and their members thrown out of work; the unemployment insurance fund had been thrown into debt, the credit of the working classes in the industrial areas had been injured and the resources of small shops which had ministered to their needs had all been seriously impoverished.
>
> The foreign coal markets had been captured by the foreigner, finances of the State had been damaged, revenue reduced and the possibility of reducing taxation postponed; and even if the coal fields returned to work tomorrow, it would only be by the greatest exertions that additional taxation could be avoided.

The trades unions naturally were inclined to support the miners, but the leaders have indicated an opinion that the miners are too unyielding in their attitude, since it appears that if their demands were granted the cost of coal

would exclude a large share of it from sale while market conditions are as at present, and compel approximately one-third of the British miners to remain unemployed.

The miners have had large contributions to their support not only from other unions in Great Britain but from other countries, something over $2,000,000 having been sent from Russia. These contributions from Europe are usually from wage-earners receiving less pay than British miners might receive if they would accept it. Meanwhile as a general thing the families of the strikers continue to live in company houses without paying rent, and the local governments see that women and children do not suffer for necessaries. The humane sentiments of the time dictate this public policy, and nobody urges a different policy, but the situation illustrates the difficulties with which modern society labors in dealing with groups who recognize no responsibility to the social organization. The common law of community life is that everybody shall be self-supporting, adjusting himself to economic conditions as they may be from time to time. Nobody has a right to say that he will not conform to economic conditions from which the entire community is suffering, or to follow a course which aggravates those conditions, while deliberately leaving to others the task of safeguarding his own dependents from the effects.

The French Situation

The French currency has been fairly stable since the Poincare cabinet inaugurated its policy for increasing the revenues and making provision for the floating debt independent of the budget calculations. As explained in our last issue the most difficult feature of the French situation has been the floating debt, which has threatened to compel further emissions of paper currency, with resulting depreciation. The Government has dealt with this menace by incorporating in the constitution a provision creating a Debt Redemption Fund, devoted to the liquidation of this part of the public debt, and dedicating certain resources to it. The income from the tobacco monopoly is pledged to the fund, also specific taxes, the aggregate being sufficient apparently to assure substantial annual payments upon the principal. The alarm occasioned by the uncertain political situation and the precipitate decline of the franc in July has largely disappeared. The franc has recovered from the low point, 2 cents to about 2¾ cents. The Parliament has adjourned until October, and upon reassembling is expected to take further action in pursuance of the plans which the Government is maturing.

The position of the Treasury has improved in the second half of August, enabling reductions to be made in the indebtedness to the Bank of France and the latter to reduce its note circulation. Since the new taxation hardly can have produced results so soon, this probably is a result of the appeal of the Government to the public to pay all taxes promptly.

The Government is taking steps to reduce unnecessary importations, in order to relieve the pressure on the exchanges, and with this object in view is requiring the use of "war bread" to make up for the short wheat harvest.

The Belgian Situation

The Belgian situation in some important aspects has been similar to that of France. Here also maturing debts hang over the Treasury, threatening it with the necessity of resorting to the National Bank for means of payment, thus causing currency inflation. The Government has set up a Redemption Fund for this indebtedness similar to that established by France, and is conveying the state railways to a private corporation and using an issue of preferred stock to support this Fund. In the case of a bond issue of about 1,800,000,000 francs falling due in December next, the holders resident in Belgium are required to take this stock in exchange for the bonds, but the terms are made so liberal that they probably will be able to dispose of their holdings advantageously if they desire to do so. The shares are entitled to a fixed dividend of 6 per cent, guaranteed by the State, and to one-half of the net profits of the company after various statutory provisions have been made. The fluctuating dividend is calculated to yield on an average an additional 2.7 per cent per annum, making a prospective 8¾ per cent. The preference shares will be repayable in 65 years, beginning in 1937, by drawings at par, but the sinking fund may be applied to purchases in the market. Both the capital and the dividends will be free of Belgian income tax, present and future, and the Government guarantees a maximum exchange of 175 francs to the pound sterling.

The Government retains ultimate control of the railways through an issue of common stock, which will represent complete ownership when the preference shares have been retired. This arrangement satisfies the Socialist element in the Parliament, which is cooperating in the policies which have been adopted for balancing the budget and stabilizing the currency.

The railways have shown a continuing deficit under government operations, but now will be under the necessity of making earnings to provide dividends on the outstanding stock, and it is expected that the influence of the stockholders will have a wholesome effect on operating results. A considerable reduction of personnel and higher charges are both forecast.

The government is taking steps to reduce its own expenditures, and also discourage unnecessary importations and impress upon the

people the need for personal economy. An associated press dispatch says:

The Belgian Government has prepared a decree for submission to King Albert absolutely forbidding the importation of white bread. Another decree suspends work on public improvements not considered immediately essential and postpones commencement of other improvements now under contemplation.

The making of war bread is made compulsory, concerning which a Brussels dispatch to the London Times says:

It is possible some economy will follow by a reduction in the number of dollars paid for American white flour, but one suspects that the Government is aiming rather at a moral effect by impressing people with the gravity of the national crisis and at reawakening something of the exalted spirit of self-sacrifice of the war period.

It is the same with the other measures either adopted or threatened for the purpose of economizing fuel or conserving domestic food supplies. These include regulations limiting illumination, the closing of all restaurants at 1 a. m.—most already close much earlier—forbidding the serving of hot meals between the hours of 2.30 and 6.30, and limiting the export of meat, sugar, vegetables, etc. None of these things can individually effect much saving, but in the aggregate they may create an atmosphere compelling the population to recognize the seriousness of the situation; that is to end altogether desirable.

The Belgian industries are well employed, the depreciation of the currency being one factor in this situation, and the British coal strike another.

Conditions in Germany

The second year of reparation payments ended with the month of August just passed, and the payments according to the Dawes plan have been regularly met. Their aggregate was 1,220,000,000 reichsmarks, or approximately $290,000,000. The details of the payments are not yet available, but it is known that they have been made for the most part through arrangements for the transfer of German products to the creditor countries. In the case of coal the reparation agreements have provided for regular transfers subject to the order of the French and Belgium governments, by whom they were usually sold at prices somewhat below the market, to the annoyance of the coal trade. In other cases the arrangements result from private bargaining. For example, an individual Frenchman bargains with an individual German for a certain purchase at an agreed price, and this arrangement having been duly approved by the authorities, the Frenchman pays the price to his government and the German receives payment from his government, the sum being credited to Germany upon reparations account. Payments thus directly arranged in goods do not effect the money exchanges, and if total exports exceed imports by more than enough to cover the payments, the latter are clearly made from savings, and not from the proceeds of foreign loans. We understand this to be the case.

These payments of course delay the recovery of Germany, retarding the accumulation of capital, with the loss of the benefits which would accrue therefrom, but there is reason to believe that Germany is making substantial gains, notwithstanding. Savings bank deposits have been increasing throughout this year at the rate of over 100,000,000 reichsmarks per month. The discount rate of the Reichsbank, which was 9 per cent at the beginning of the year is down to 6 per cent, and money for all purposes is more abundant and cheaper than a year ago. Numerous municipal and industrial flotations have been successfully made in the home market, and the stock market has had a rise rivaling that in Wall Street.

This monetary ease cannot be wholly accepted as a sign of prosperity, for in part it is due to industrial depression and the light demand for working capital in industry and trade. Unemployment remains large, with 1,652,000 persons receiving unemployment relief at the beginning of August. This is about 200,000 less than in the Spring months, but the gain is attributed mainly to increased activity in the coal industry, due to the British strike.

The government is taking steps to assist industry in certain lines by means of loans, and to carry on certain housing operations and public improvements, for the purpose of affording employment. The German Railway Company is arranging for important expenditures, having in view the same end.

Government finances are in good condition. Notwithstanding heavy expenditures for unemployment, the Treasury reports that total Government expenditures in the four months of the present fiscal year, April to July, were within the budget estimate and covered by revenues.

The Reichsbank gold reserve is now higher than at any pre-war date, having increased $250,080,880 since April, 1924.

The rise of stocks, while stimulated by cheaper money, is significant of growing confidence within Germany, and undoubtedly this confidence has a good basis. Industrial management is making a thorough study of costs, and reorganization and consolidation for their reduction is the order of the day. The publication of the Berliner Handelsgesellschaft mentions the case of one of the largest coal companies, which with two-thirds of the workmen employed before the war, has reached its prewar production. The coal, iron, potash and dye industries have been almost completely syndicalized, with the approval or cooperation of the German government. We shall describe these syndicates in some future issue.

The "Chemical Syndicate," the I. G. Farbenindustrie A. G., is the largest corporation in Europe, just now raising its capital to 1,100,000,000 reichsmarks (about $262,000,000). This corporation is of very broad scope, including practically the whole field of the chemical in-

dustries and contemplating great developments in fertilizers, motor fuel and other comparatively new lines.

The German Steel Syndicate

The new German steel corporation has a capital of 800,000,000 reichsmarks, about $200,000,000, and is next to the largest corporation in Europe. The news reports in this country relating to the organization of this corporation, which is created by the combination of numerous companies heretofore competing more or less actively, have been in some respects misleading. They have often appeared under headlines and with comments which convey the idea that the new organization is formed to make a great drive in foreign markets, and that it is likely to be a menace to the iron and steel industry of the United States.

The new corporation's annual production at full capacity is understood to be about 30,000,000 tons of coal, 8,000,000 tons of coke, 2,500,000 tons of pig iron and 3,700,000 tons of steel, from which it appears that unlike our American steel companies, it is a producer of coal for the market.

Apparently the combined iron and steel capacity closely approximates that of the Youngstown Steel and Tube Company, of Youngstown, Ohio, which according to the statistics of the American Iron and Steel Institute, has an annual capacity of 3,053,000 tons of pig iron and 3,240,000 tons of steel. The annual capacity of the Bethlehem Steel Corporation is given by the same authority as 6,850,000 tons of pig iron and 7,600,000 tons of steel, and of the United States Steel Corporation as 18,933,200 tons of pig iron and 23,337,600 tons of steel. The theoretical capacity of all pig iron furnaces of this country is given by the Institute as 50,500,000 gross tons, and allowing for necessary repairs, etc., the practical capacity is estimated at 45,000,000 tons. In steel the total theoretical capacity is estimated at 56,000,000 tons and the practical capacity at 50,000,000 tons.

The total world production of pig iron in 1925 is estimated by the Iron Trade Review of Cleveland, at 75,509,000 tons, of which the United States made 48 per cent, and the world's production of steel at 88,964,000 tons, of which the United States made 52 per cent.

Nothing in the news reports have indicated that the capacity of the German works which have been brought under one management will be increased. The avowed object of the consolidation is to secure economies in operation and in selling costs which will enable them to operate more regularly. The same purpose is stated for the association of the iron and steel companies of Germany, France, Belgium and Luxemburg now forming.

In this connection reference may be also made to occasional reports of sales of Belgian and French pig iron in this country. The decline in the value of the Belgian and French currencies undoubtedly has facilitated such sales, but it is well to bear in mind that the estimated capacity of all the Belgian furnaces for making pig iron is about 3,500,000 tons per annum, and the steel making capacity is about the same. The total capacity of the country is not much above that of the single American corporation first named.

When prosperity returns to Europe it is probable that the iron and steel capacity of all European countries will be fully occupied in meeting the home demands, together with the share of world trade which has been accustomed to go to those countries.

It is unfortunate that the language of warfare is so readily used in describing ordinary business movements and developments, and especially where competitors are of different countries. The expansion of the Bethlehem Steel Corporation in recent years has been far more important to the steel industry of this country than this German combination, but it lacked the dramatic suggestion of international rivalry.

Conditions in Italy

The Italian Government is very watchful of industrial and trade conditions, and has been prompt to take steps to overcome the tendency to a declining rate for the lira in the exchanges. The wheat harvest is not so good as last year's, which imposes the necessity of larger importations. That the adverse trade balance may not be increased, the government has imposed numerous regulations, calculated to restrict imports and increase exports. The character of these efforts is indicated by the first decree issued June 30, which covered the following subjects:

(1) As from July 1, 1926, up to June 30, 1927, it will be forbidden to begin any luxury building, construction being confined to popular and economic dwellings for the middle and working classes.

(2) As from July 1, it will be forbidden until further notice to open new bars, cafes, confectioner's shops, dancing halls, and similar premises.

(3) As from July 1, the maximum number of pages of daily newspapers will be limited to six, but there must be no increase in the format.

(4) As from November 1, no petrol will be available without an admixture of alcohol.

(5) As from July 1, employers will be authorized to increase the working day by one hour.

Subsequent decrees have restored the use of war bread and imposed other restrictions which have the same general purpose in view. The public accepts these restrictions in good spirit.

The industries of the country are still in a good state of activity, although some curtailment of production in cotton goods has been found advisable. The stabilization of the Belgian and French currencies, if accomplished, will have a favorable influence upon the lira and upon all conditions in Italy.

The Monetary System of India

Report of the latest Royal Commission

Paper currency redeemable in Gold Bullion in sums of $8,000 or more—Diminishing use of Silver

The Royal Commission on Indian Currency and Finance, appointed in August, 1925, to examine and report on Indian exchange and currency, has made public its report within the past month.

This is the fifth Royal Commission to report upon the monetary system of India in the last thirty-three years, all of these reports having to do with the transfer of that system from a silver to a gold basis. Inasmuch as India was one of the chief silver-using countries and the United States one of the chief silver-producing countries, every step taken by the former in the demonetization of the white metal has been of great interest and importance in this country. The great political contest over the use of silver in our own monetary system, which culminated in the McKinley-Bryan campaign of 1896, was immediately precipitated by the closing of the Indian mints to silver in 1893, in pursuance of the recommendation of the first of these five Royal Commissions.

The Movement to the Gold Standard

The movement to monometalism was begun in 1816, by Great Britain, when it defined the contents of its monetary unit in gold alone. In most other countries, until a much later time, the monetary units were defined in both gold and silver and the two metals were admitted to coinage on equal terms. Thus upon the establishment of the mint of the United States in 1792 gold was admitted to coinage at the rate of 24.75 grains, fine, to the dollar, and silver at the rate of 371.25 grains, fine, to the dollar. Anyone possessing gold or silver bullion might take it to the mint, and have it made into coin at these rates, and returned to him as his property. The fact, however, that these different weights of two metals were made by law of the same legal tender value did not in fact make them of the same value in trade. They fluctuated in relation to each other, as production varied, and whichever set of coins was of the greater bullion value promptly disappeared from circulation. The first ratio adopted in this country was 15 to 1, i. e., 15 ounces of silver had a coinage value equal to 1 ounce of gold, but several adjustments were made, the latest in 1834, by which the coinage value of gold was increased to 23.22 grains to the dollar, the content of the silver dollar remaining unchanged. This gave a ratio of 15.986+ to 1, familiarly known in our political campaigns as "16 to 1."

The double standard was really an alternative system, and the countries using gold as a standard were not upon a common value basis with the countries using silver. As international trade and international investments increased, the fluctuations between the two standards were recognized as an impediment to intercourse, an element of uncertainty and risk. Moreover, as wealth and the volume of business increased, the preference for the more valuable of the two metals as the medium of final settlements became more pronounced. The reason for this was the same as for the preference of silver over copper and of copper over iron. By a process of elimination the nations were coming to a single standard, which provided a common system of prices around the world.

When the German empire was formed after the Franco-Prussian War of 1870-71, it proceeded to create a new monetary system in place of the varied systems of the German States, and followed the example of Great Britain in adopting the single gold standard. The indemnity received from France provided part of the gold and the remainder was provided by melting down and selling old German thalers, the silver thaler being the coin from which the dollar is a lineal descendent. The world's production of silver was increasing rapidly at this time, largely by the output of the Comstock lode, Nevada, and the German sales, plus the psychological effect of the German policy, caused a sharp decline in the gold price of silver. The first German sales, in 1873, realized approximately $1.20 per ounce, and within three years the price was under $1.00 per ounce. As a result of the decline all of the countries of Europe closed their mints to the free coinage of silver, to avoid the depreciation of their monetary standards and currencies.

The Silver Controversy in the United States

It happened that the United States, by accident rather than foresight, had already closed its mints to the coinage of full legal tender

silver. For many years prior to 1873, silver bullion, by reason of relative scarcity, had been ruling in the markets of the world above its coinage ratio to gold. The large production of gold, coming from newly discovered placers in Australia and California had been responsible for this situation. In the late sixties and early seventies, gold production was declining and silver production increasing, so that the two metals crossed their old coinage ratio, which in the United States, was approximately 16 to 1, in 1873. In the United States, following the outbreak of the Civil War in 1861, specie payments had been suspended, and down to 1873 both gold and silver were at premium over the paper currency, but silver at a higher premium than gold. At this time, in a general revision of the coinage laws, the silver dollar was dropped from the list of coins as obsolete. The total coinage of this piece from 1792 to 1873 had been only about $8,000,000. This act of revision was approved in February, 1873, at the very time when events were culminating which quickly depressed the price of silver bullion below the coinage rate. As soon as this depression occurred, the silver producers of the United States began to inquire the way to the mints, and when they learned that they were closed to silver, there began the agitation which was destined to cut so large a figure in the politics of the United States over the ensuing 25 years.

At first it was not a partisan question. A bill by Richard P. Bland of Missouri to resume the free coinage of silver dollars was introduced in the House of Representatives and passed that body in 1877. It is noteworthy that among the Republican members voting for it was William McKinley of Ohio, who nineteen years later headed the Republican party, pledged to the maintenance of the gold standard, against William J. Bryan, the champion of silver. The Bland bill, however, was amended in the Senate, upon a proposal by Senator Allison, of Iowa, to provide that instead of reopening the mints to the free and unrestricted coinage of silver on private account, the Secretary of the Treasury should buy silver bullion and coin the same into silver dollars on government account. It was vetoed by President Hayes, but both House and Senate passed it over the veto and it became a law.

Bland-Allison Act

The market value of the silver content of a dollar piece at this time was about 90 cents gold. The argument for the Bland bill was that the act of admitting all silver offerings to the mint, to be coined into dollars at the old rate, would forthwith advance the value of silver to the former parity with gold. The argument for the Allison amendment was that this theory might not prove true; that legislation never had been successful in making the two metals circulate together, and that the probable effect of the Bland act would be the expulsion of gold and the depreciation of our currency to the silver standard, which had been abandoned by the countries with whom we had our principal trade relations; furthermore, that the purchases by the Treasury of an amount approximately equal to our capacity for the absorption of new monetary supplies would test the effect of our absorptive power upon the price of silver, and that if it raised the value of silver to the coinage rate the purpose of the Bland act would be accomplished, while if it did not, the apprehended depreciation would be avoided; moreover, whatever profit might be realized by coinage would go to the treasury, instead of to the private owners of bullion.

The Allison amendment carried in the Senate and was adopted in conference. The Bland-Allison act, as the measure is known in history, provided for the purchase upon public tenders, by the Secretary of the Treasury, in his discretion, of $2,000,000 to $4,000,000 worth of silver bullion monthly, to be coined into silver dollars. At the going price of silver this meant the addition of more than this amount of dollars to the monetary stock monthly.

The hope that these purchases would advance the market price of silver bullion was not realized. The production of silver continued to increase, the law of supply and demand continued to function, the price of silver kept on falling, and the political agitation in behalf of silver increased. In 1890 Congress made a final effort to stay the decline and lift silver back to its old place by the side of gold, by passing the Sherman act, which increased the purchases of silver to 4,500,000 ounces per month, or so much thereof as might be offered at a price not exceeding the coinage value. This silver was paid for by the issue of non-interest-bearing treasury notes or currency, redeemable in gold or silver coin, at the discretion of the Secretary of the Treasury, the act declaring it to be "the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio or such ratio as may be provided for by law." The Sherman act was a step farther in the direction of the Bland-Allison act, experimental, and designed to raise the price of silver without risking a shift to the single silver standard, with the loss of our gold holdings.

The Sherman act afforded another lesson in price-fixing. The immediate effect was an advance in silver, but production was increasing, the advance gave it further stimulus and in a short time the decline was resumed. The highest price for silver bullion in 1890 was about $1.10 per ounce and the lowest about 95 cents; in 1892 the high was 87 cents and the low about 74, with the drift downward.

In May, 1893, came the blow from India, the action taken on the recommendation of the Herschell Commission, closing the mints of that country to the free coinage of silver on private account. Silver dropped in that year to 60 cents per ounce.

Silver a Political Issue

By this time it was evident that the Sherman act would not rehabilitate silver, and also evident that the continued injection of full legal tender currency based upon silver into our monetary circulation would eventually expel our gold stock and give this country the single silver standard, which was in use nowhere else, excepting China. Accordingly, in August, 1893, President Cleveland called the Congress together in extra session for the special purpose of repealing the Sherman act. This was done by a vote in which party lines were to a great extent disregarded.

The issue was in politics now, however, to stay until settled. The times were favorable to agitation on the money question, for railroad building in the West, in Russia, India, Argentina and Australia had been rapidly increasing the area of land in exportable crops, and prices of farm products were low. Moreover, the agitation for a change in the monetary standard paralyzed enterprise, and prompted foreign investors to withdraw capital from this country; a new administration had come into power at Washington, pledged to a reduction of the protective tariff, naturally causing a falling off of importations and decline of revenues; trade and industry slowed down and the Treasury faced a deficit and a run on its gold reserves; the $100,000,000 currency reserve became impaired and it was necessary to sell bonds for its replenishment, which in some parts of the country was unpopular. Many people were sure that this was the final act in a great conspiracy, which had brought the country's monetary system under the control of Wall Street, and after three years of this kind of excitement William Jennings Bryan stormed the Democratic National Convention in 1896 with his "cross of gold" speech, but was not elected President.

International Conferences

During all of these years an important body of economists and financiers in all countries had held that it would be practicable by international action to maintain stable relations between gold and silver and continue the use of both as standard money, and that it was desirable to do so. No little concern existed over the declining production of gold, which continued until about 1885.

Between 1873 and 1896 three international conferences upon the subject of bimetalism were held; in 1878 and 1881 at Paris, and in 1892 at Brussels, without results. The United States Government was represented in all of these conferences and its attitude was friendly to an international agreement for the free coinage of both metals at an agreed ratio. The Republican platform of 1896 declared for the maintenance of the existing gold standard unless by international action bimetalism could be restored as a world system, and pledged the party to another effort to secure international action. President McKinley appointed a commission headed by the late Senator Edward O. Walcott of Colorado, to negotiate for such a conference, but by this time the world's production of gold was increasing so rapidly that the European nations were disinclined to pursue the subject farther. By 1900 gold production was increasing by leaps and bounds, and from that time on until the outbreak of the war the whole world was experiencing rising prices.

The foregoing is a sketch of the more important silver legislation outside of India since 1873. We come now to the legislation of India, the country which has been pre-eminently the market for silver for the last 100 years.

Indian Legislation Upon Silver

Prior to 1893 India had the single silver standard, the principal coin being the rupee, which with silver at 16 to 1 was worth about 44 cents. Following the demonetization of silver in Europe and with the continuing increase of production, the instability of the value was so great that in the opinion of the authorities of India it was no longer suitable to serve as the standard of value, and the Herschell commission was appointed to consider what should be done. This committee recommended that the free coinage of silver be stopped, and this was done. At that time it was generally thought, particularly among the advocates of silver, that this act would destroy the market for silver, but it did not do so. Although the Indian mints were closed to silver on private account, the Government began in a few years to buy silver bullion and issue silver coins on its own account, regulating the volume in circulation in such manner as to give them a fixed relation to the sovereign. In short, it adopted the policy which the United States had followed under the Bland-Allison and Sherman acts. By this policy, and by supplying exchange into and out of India to satisfy all demands, the Indian Government succeeded in stabilizing the currency at 15 rupees to the British pound. The Indian system became the world's classic example of what has come to be known as the "Exchange Standard," whereby an internal currency of paper or token coins is maintained at parity with gold by the use of small reserves but an effective control over foreign exchange transactions.

Two Royal commissions deliberated upon the Indian currency system in the twenty years from 1893 to 1913. One of them recommended a gold coinage, which was tried but developed no importance, for the simple reason that wages and the general scale of purchases are so small in India that gold coins are unsuited for common use.

The other commission reported that the gold standard had been firmly established without a gold currency, that the people of India did not desire or need a gold currency and that the essential thing was that the existing silver and paper currency redeemable in silver "should be supported for exchange purposes by a thoroughly adequate reserve of gold and sterling." This report was made in 1913, and the outbreak of the great war prevented any action upon it.

The War Disturbance

The great war played havoc with the exchanges everywhere, and affected the Indian monetary system in a peculiar way. The increased exports of India created a great trade balance in favor of that country and the demand for silver in settlement caused the price to rise above the established coinage rate, so that the entire silver stock of India had a bullion value above its nominal money value and a monetary crisis was imminent. The United States Congress came to the relief of this situation by passing the Pittman Act permitting the silver dollars held in the Treasury against silver certificates to be melted and sold to India at $1.00 per ounce, with the provision that the Treasury should repurchase an equal amount of silver bullion of United States production if and when this could be done at $1.00 per ounce, and that the melted pieces should be thus replaced. The supply of silver so obtained enabled the Indian government to tide over the critical situation.

In this confusion the former ratio between the silver rupee and the gold sovereign (15 to 1) had been lost, and in 1919 the fourth Royal Commission was appointed, to say what should be done about a new ratio. It recommended the ratio of 10 to 1, and the Indian Government attempted to carry out this proposal, but the price movement which had forced rupee exchange up culminated in 1920, and the Government found its task impracticable. It expended £55,532,000 (approximately $250,000,000) in the effort and then abandoned it.

The fall of the rupee currency meant a fall of prices similar to that which occurred about the same time in the United States. The monetary and banking system and everybody who had anything to do with it was roundly denounced, the same as in the United States. A demand developed for a new monetary system, entirely divorced from that of Great Britain.

Apparently the idea prevailed in India that the gold exchange standard, which is admitted to have served the country quite acceptably from the time it was put into effect about 1898 until the war created the great disturbance in the exchanges, was a makeshift by which India was given a rather uncertain attachment to the British system, and that the arrangement was quite unsuited to so important a country as India.

In August, 1925, the fifth Royal Commission since and including 1893 was appointed to see what should be done about the monetary system of India. It was composed of ten members, eight of whom were residents of India, and two residents of London. The Commission spent several months holding hearings in India at which it was developed that sentiment there was strongly for the establishment of a complete and independent gold standard system.

The Proposed Gold Standard System

The Government of India apparently yielded to the prevailing opinion and submitted a plan providing for an uncompromising gold standard system, with gold coin in circulation, and silver coins and paper currency convertible into gold, silver to be legal tender only to 50 rupees. The amount of gold required under this plan, as estimated by the authors of the plan, was £103,000,000 (about $500,000,000) of which about one-half would be wanted in the first year, and the remainder over five or ten years.

According to the estimate, the Government would have about 687,000,000 fine ounces of silver for sale, an amount equal to nearly three times the world's annual production at the present time.

Objections to the Plan

After closing the hearings in India, the Commission moved to London and opened hearings, inviting opinions upon the plan. It soon learned that there were strong objections against both the gold and silver features.

London did not view with favor a proposal which contemplated a requirement of $500,000,000 of gold for the Indian monetary system, in addition to the usual Indian absorption for ornaments and hoards. The bulk of the demand might be expected to fall on London, and in view of the state of British trade and industry, the obligation to pay $160,000,000 annually to the United States, and the fact that Great Britain herself has been back on the gold basis only about a year and needs time to fortify her position, this proposal seemed quite inopportune.

Continental authorities viewed it in the same light. All of Europe has been suffering from

scarcity of working capital and bank credit, with high interest rates, and the reserves of London could not be lowered without tightening conditions in every money market of Europe. Belgium, France, Italy and Poland are needing help for the support or reconstruction of their monetary system, and industrial recovery in Europe is largely dependent upon their getting it.

It seemed indeed an unfortunate time for India to be increasing her drafts on the gold supplies of the world, and particularly for the purpose of substituting gold for silver in common circulation. The general increase of industrial costs has affected mining costs in like manner, causing a falling off in the production of gold, while on the other hand the higher price level has made necessary a larger volume of credit in handling the turnover of trade and increased the requirements of all countries for gold reserves. What would be the effect upon the existing price-level of these proposed demands, and what the effect upon business of a possibly declining price-level?

India's Recent Absorption of Gold

In order to appreciate the significance of the proposal it is necessary to know what a large share of the world's production of gold has been taken by India in recent years in the form of bullion, although taken solely for ornaments and private holdings. In the five fiscal years ended March 31, 1914, the net imports of gold into India aggregated $472,415,000, or an average of $94,400,000 per year. Since 1913 the movement has been irregular, owing to the war and the violent fluctuations of trade, but in the calendar year 1925 it exceeded all records, private imports of gold bullion into India rising to slightly above $200,000,000, out of a total world's production of approximately $400,000,000.

The gravity of this movement is in the fact that gold taken by India does not remain a part of the world's monetary stock, as in the case of gold taken by any of the western nations. The gold stocks of Europe and the Americas may be shifted about from country to country and serve all countries continuously as a part of the world's capital employed in production and trade. These movements tend to maintain the industrial equilibrium and to stabilize prices in all countries in relation to each other. The gold which has gone from the United States to Germany in the last two years was added to the reserves of the Reichsbank and has not ceased to be a factor in prices in this country. On the other hand, the $200,000,000 imported by India in 1925 did not enter the banking reserves of that country, has not been devoted to investments or business purposes, and in all probability has been lost to the monetary stock of the world.

Under the circumstances the financiers and economists of Europe could not look with favor upon a plan which seemed to favor an increased distribution of gold in India. It should be understood that in the aggregate, the cash banking reserves of Europe and the United States actually diminished in the year 1925, the net movement being away from the financial centers to what may be called the outlying countries and districts.

Defence of the Plan

In fairness to the advocates of the plan it should be said that they defended the proposal on the ground that the people of India already knew how to obtain gold, as appeared from their importations last year, and that their inclination to take it would not be defeated by refusing to allow them the use of it as money; that on the contrary, the refusal to give it to them increased their preference for it over silver and paper money offered as substitutes. It was urged that recent experience had increased their suspicions of artificial systems and strengthened their belief that the British authorities were disposed to give them a monetary system not so good as was wanted at home for themselves, or as the rest of the western nations wanted. Sir Basil Blackett, the Financial Minister argued that the best way to stop the hoarding of gold was the time-tried method of stopping a run on a bank, i. e., by paying what was wanted freely.

All parties to the discussion agreed upon the importance of extending banking facilities throughout India, and of cultivating the banking and investment habit among the people.

Looking to the United States

Although the proponents of the official plan were not surprised to meet with opposition in Europe they had been led to believe that the United States was overburdened with gold, in danger of inflation, and might be glad to get rid of some of its stock by exportation to India. Governor Strong of the Federal Reserve Bank of New York, and other witnesses from this country, explained to the Commission that the gold reserves of the United States were all employed, if not to the limit of their capacity, as fully as they should be under normal conditions, and that this country was not eager to lose gold.

They explained furthermore that while the sound condition of Indian Government finances was well known in the United States, and under other circumstances an Indian loan could be easily placed, European needs would have to be regarded as more pressing in the immediate future; furthermore, that the feature of the plan dealing with silver would be very unwelcome in the United States.

The Menace to Silver

They pointed out that the United States, Canada and Mexico are the three countries leading in the production of silver, their aggregate in recent years being over 70 per cent of the world's production, and that this country was largely interested in the production of the other two countries. The world's production is about 240,000,000 ounces, of which India has been accustomed to take about one-third. The proposal seemed to contemplate that India would become a seller on a great scale, and they urged that such a development would spread consternation among silver producers everywhere.

Even if sales by India were left out of the account, and the 687,000,000 ounces to be sold by the Indian Government were simply held to be gradually absorbed by the home demand, it was difficult to see how the current world's production could be disposed of outside of India. China was the next largest purchaser, but the action of India would almost certainly affect the policies of China, and affect the demand for silver everywhere. It would seriously disturb the confidence of the world in the future value of silver.

It was pointed out also that inasmuch as the bulk of the world's production of silver is now in connection with the production of gold, copper, lead and zinc, the production of all these metals would be affected, and the prosperity of the mining industry would be generally affected, and a very large sum of investments in the aggregate might be imperilled.

It was urged that the people of India had been accustomed to esteem silver as one of the precious metals, and that notwithstanding the legislation closing the mints to free coinage, the continuance of coinage on government account and the maintenance of full legal tender powers had served, in large degree at least, to maintain the prestige of the metal. A further serious decline in the price of silver, however, reducing the value of the vast savings of the Indian people in this form, might have the effect of creating a greater demand for gold than has been known in India up to this time.

The Decision of the Commission

The decision of the Royal Commission is against the proposal for a gold coinage, but in favor of placing the silver coins and paper currency now redeemable in silver on a gold basis, by requiring the Bank of Issue to redeem its notes in gold bars in sums of not less than 400 fine ounces (about $8,000). This is the basis upon which the Bank of England resumed gold payments last year.

We think it best to give the gist of the Commission's decisions upon the gold coinage proposal in its own language, as follows:

In this connection it is necessary to take account of the requirements of various European and other countries whose financial equilibrium has been disturbed to a greater or less extent in consequence of the war. These countries are now trying to climb back gradually to the gold standard or the gold exchange standard. This aim requires for its fulfilment that there should be a certain amount of free gold available each year. Though signs are not wanting of a spirit of cooperation among the Central Banks towards effecting considerable economies in the international use of gold, there can be no doubt that a large extra demand from India would cause increased competition for gold among the countries of the world and lead to a substantial fall in gold prices and a substantial curtailment of credit. In their reaction on India as one unit in the world's trade system, a fall in gold prices and a curtailment of credit would on balance be unfavorable.

It has been suggested that the United States of America at present holds a far larger stock of gold than is required for monetary purposes, and that it would be an advantage to America and to the world generally if some of this redundant gold were to be absorbed by India. The authoritative evidence which we have received from the United States does not confirm this suggestion. We have been told that during last year the United States of America parted with about $134 million of gold, and that the residuum of free gold available is not in excess of the probable requirements of other countries for purposes of reconstruction. Bearing in mind these requirements, and also the internal absorption of gold for the growing needs of the United States itself, we consider that the stock of "free" gold in America cannot be regarded as superfluous and will probably be absorbed in a comparatively short time.

As to the possibility of a loan to carry out the plan the report says:

As regards the question of credits, we have had the benefit of the opinion and advice of the authorities best qualfied to speak on the subject, namely the Governor of the Bank of England and the Governor of the Federal Reserve Bank of New York. This is a matter in which Great Britain would not be able to act alone without the cooperation of America. Both authorities view the proposal with alarm on the grounds that it would retard the progress of monetary reconstruction in Europe, would upset world prices, and would be fundamentally harmful both to India and to the rest of the world. The United States is directly interested in the proposal through its mining industry, both in silver and in base metals. The currency authorities and bankers of the United States, with its great and traditional interest in silver, cannot be expected to support or encourage a proposal which would deal such a blow to the silver market as the addition to supplies of thrice the whole of the world's production for a year. In these circumstances it appears that insuperable difficulties would be encountered in obtaining the necessary credits.

* * * * * *

We have already arrived at the conclusion that, in order to secure public confidence in India, the currency of the country must be linked with gold in a manner that is real and conspicuously visible, or, in other words, that it is necessary to establish a true gold standard. It should be understood that this does not necessarily imply a gold currency. It is possible to have a true gold standard under which the currency is based on gold both in reality and in a manner that is conspicuously visible, without putting gold into circulation. Having stated our reasons for rejecting the principal proposal for a gold standard with a gold currency that has been suggested to us, we proceed to deal with the method for the establishment of the gold standard which we recommend for adoption. The essence of the proposal which we proceed to develop is that the ordinary medium of circulation in India should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It **must** not circulate at first, and it **need** not circulate ever.

Although the Commission does not suggest other borrowing, it favors a gradual building up of the gold reserve, saying that "no favorable opportunity of fortifying the gold holdings of the Reserve should be allowed to escape." However, the recommendations of the Commission as to gold were anticipated and are not in themselves disturbing. There has been no prohibition upon the importation of gold bullion into India at any time, and native dealers have catered to the demand for small bars. The provision for gold payments in bars is the same as that under which the Bank of England is now operating. This institution is not required to redeem its notes in coin, it being considered undesirable even in England that gold coin should be put into circulation.

The Policy As to Silver

The Commission declares itself "wholly opposed to any alteration in the legal tender character of the silver rupee," and in further discussion says:

> The people of India have from time immemorial placed their trust in silver as the medium of exchange and as their store of value. They are deeply interested in the value of silver bullion, and it is contrary to their interests to depreciate it. The present proposals would inflict heavy losses on the poorer classes, who have put their savings into silver ornaments, and who would find their stores of value depreciated by perhaps 50 per cent by the action of Government. It might well happen that, when it was seen that the price of silver was doomed to fall, there would be a tendency to change over from silver to gold in all parts of the world where silver is still held in large quantities as a store of value. It is proposed in the scheme, to protect the value of the Indian holdings of silver against this inevitable depreciation by an import duty. Quite, possibly, if it were a very heavy duty, it might protect them to some extent. If it did, it would put the Government of India under a moral obligation to maintain the price of silver for practically all time; for at the completion of the plan they would have sold nearly 700 million ounces of silver to the people at a price that was possibly double the world price. In our opinion, however, the effort to maintain the domestic price of silver irrespective of world price would probably fail.

Nevertheless, the report expresses the opinion that the Government holds an unnecessary amount of silver at this time, as a result of the heavy purchases made in the period of price inflation in 1917-20. It proposes that the present silver reserves be reduced to 25 crores, which would mean a disposition in some way of approximately 250,000,000 ounces, but proposes that this reduction be spread over ten years. It says that a sufficient amount of coin must be kept in reserve to provide for the ebb and flow of rupees in circulation, but adds: "Our recommendation implies that the coinage of silver rupees should be stopped for a long time to come, until the amount of silver rupees in circulation is reduced to the amount required for small change."

Therefore, while the drastic proposals of the Indian Finance officials are considerably modified, the report seems to look forward to the gradual reduction of the rupee to small change, with paper notes, redeemable in gold, to constitute the body of the currency. The chief difference between this policy and the submitted plan is in slower development, taking more time for the acquisition of a gold reserve, the disposition of silver and in altering the legal tender character of the existing silver. The immediate effect upon the silver market will be lessened by this course, but the policy clearly looks to a diminishing use of silver in the monetary system of India.

Probable Influence of the Report

This of itself would not be a matter of overwhelming importance, provided the private demand for silver in India remained unaffected. The Indian Government has bought no silver in the last three years, but the imports of silver into India on private account in that time have averaged over 100,000,000 ounces per year. The serious question is whether this legislation will injure the prestige of silver in the estimation of the people of India, as a precious metal and a store of value.

It is to be considered that notwithstanding all of the adverse legislation which has been enacted to this time, the world's consumption of silver has been constantly increased. In 1873 production was 63,000,000 ounces; in 1878, 73,000,000 ounces; in 1893, 165,000,000 ounces; in 1925, approximately 240,000,000 ounces, and the price was higher in 1895 than in 1893.

The price of silver has been weak in the markets since last January, declining from about 68½ cents per ounce to approximately 63 cents shortly before the contents of the Report were made public. A further decline of about 2 cents then occurred, but this has been partially recovered. It is probable that bullion dealers in London and Asia had discounted the Report to a considerable extent in their operations.

The London Times comments upon the report and the price situation as follows:

> An unsettled feeling has been caused in the market for bar silver by certain of the recommendations of the Indian Currency Commission. The price has fallen to the neighborhood of 28½ d. per oz., the lowest point for many years past. Last year the price did not fall below 31-1/16 d. Of late years, it is true, the Indian Government has not been a buyer of silver, but, on the other hand, it has not been a seller, and there has always been the possibility that a rise in the intrinsic value of the rupee above its exchange value might reproduce the conditions which caused so great a demand for silver on the part of the Indian Government in the closing years of the war. For this position there is now the probability of the substitution of conditions under which the Government of India is likely to be a seller rather than a buyer, in view of the proposed reduction of the silver holding in the currency reserve. Further, it is clear that the Commission considers that the use of notes for currency purposes should be encouraged, and it is interesting to observe that it is suggested that the one-rupee note, the further creation of which had been withheld, should be reintroduced. Finally, the report is emphatic that the paper currency should cease to be convertible by law into silver coin, an

obligation which, as it is truly pointed out, has in the past placed the currency system of the country at the mercy of the price of silver. India should, of course, remain one of the principal absorbers of silver by reason of the demands of the native population for the metal, but the position of the Indian Government in relation to silver seems bound to undergo considerable modification if the Commission's suggestions are adopted. The price of silver has also been affected by the high quotations for certain of the base metals, for this has led to the increased output of silver as a by-product.

A Reserve Bank

The Report recommends the establishment of a Reserve Bank, to serve as a central institution of rediscount for the other banks, and to issue and redeem the paper currency, serve as banker to the Government and perform the usual functions of a central banking institution. It shall do no business with the public, this being the principal reason for not adopting the proposal to develop the Imperial Bank of India as the central institution. The latter has a profitable business with the general public, and its stockholders probably prefer that it shall continue as it is.

The Stabilization of the Rupee

The Report recommends the stabilization of the rupee currency at 1 shilling 6 pence (36 cents) on the ground that this rate has been practically maintained for such a length of time that internal prices are generally adjusted to it. The employing industries urged a lower rate (1 shilling 4 pence) on the ground that it would aid them in their competition with imported goods.

The following comments by the Commission are of general interest as showing wage and price conditions in India quite similar to those elsewhere. It says:

> Where exchange and prices have been steady over a considerable period, we should feel justified in assuming that wages were in adjustment unless there were any clear indications to the contrary. The statistics of foreign trade afford no such contrary indication, but rather strengthen the assumption. Agriculture, which is pre-eminently India's greatest industry, has suffered from the world-wide effect of the war, which has been to leave the prices of agricultural produce at a lower level in relation to manufactured articles. This effect is illustrated by the marked difference between the average rise since 1914 in the prices of the articles that India exports, which are mostly agricultural, and the rise in the prices of imported articles, which are mostly manufactured. The rise has been considerably greater in the latter case than in the former, and this undoubtedly constitutes an economic loss to India. But it is a loss which she shares with all other agricutural countries and which cannot be made good by any monetary policy. In spite of this disadvantage such figures as are available (e. g., the index numbers of agricultural wages in rural areas compiled by the Labor Office, Bombay) indicate a general tendency to improvement in the wages of the laborer, and this tendency may be expected to facilitate adjustment to falling prices, which indeed operate as a check to the rising tide of wages. A similar phenomenon has been observed in the case of Government services, where the increase in the value of the rupee to 1s. 6d. has enabled Government to refuse increases of pay which it might otherwise have been difficult to resist.
>
> On the whole, we see no reason to believe that there is any general maladjustment in agricultural wages. Neither have we been able to discover any such condition in the wages paid by manufacturing industries generally. The jute mill industry of Bengal granted temporary increases of pay to its employes in the years when prices were abnormally high, but as a result of the adjustments which have taken place the wages now paid in that industry are in line with today's price levels and cost of living. We found certain other important industries in a state of depression, notably the steel and cotton mill industries. The steel industry is suffering, not so much from high wages, as from the stress of foreign competition, stimulated in some countries, e. g. Belgium, by depreciating exchanges. With regard to steel and other industries, it appears to us that relief, if relief is really required, cannot properly be obtained by manipulation of the currency. The cotton mill industry of the Bombay Presidency has furnished us with detailed figures illustrating its difficulties. The chairman of the Bombay Millowners' Association told us that the present index figures of wages of mill-hands is 231 (as compared with 100 in 1914), and that attempts to reduce wages have been frustrated by strikes. This, too, in spite of the fact that the Bombay index numbers of wholesale prices, retail food prices, and cost of living are only 150, 150, and 153 respectively. These figures indicate that either the pre-war rate of wage was too low or the present rate is excessive. The reduction of the exchange rate to 1s. 4d., which the chairman of the Association and many other witnesses advocated, would at best provide a temporary alleviation only for so serious a maladjustment. The ultimate effect would merely be, by inflating the currency to the extent of 12½ per cent, to produce a concealed reduction in wages of an equivalent percentage.

One of the members of the Commission dissents vigorously from the recommendation of the 1 shilling 6 pence rate, arguing that the former rate, 1 shilling 4 pence, should have been adopted. It is probable that there will be a sharp division of opinion in India upon this point. The higher rate for the rupee naturally will be to the advantage, at least temporarily, of those having payments to make abroad, either upon indebtedness or for imported goods, while the low rate will be generally favored by home manufacturers competing with imported goods.

The Gold Situation

The gold situation as referred to in this review of the Commission Report, and with relation to the future of prices, will be the subject of further discussion next month.